

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name TOWNSHIP OF COVERT	County VAN BUREN
Audit Date 6/30/04	Opinion Date 10/26/04	Date Accountant Report Submitted to State: 12/21/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Siegfried Crandall PC			
Street Address 246 East Kilgore Road		City Kalamazoo	State MI
		ZIP 49002-5599	
Accountant Signature 			Date 12/21/04

Township of Covert
Van Buren County, Michigan
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
Year ended June 30, 2004

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INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Township of Covert, Michigan**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Township of Covert, Michigan, as of June 30, 2004, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Covert, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 13, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*, as of July 1, 2003.

The management's discussion and analysis and budgetary comparison schedules, as listed in the contents, is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITORS' REPORT (*Continued*)

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Township of Covert, Michigan's basic financial statements. The supplementary information, as listed in the contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Township of Covert, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards* we have also issued our report dated October 26, 2004, on our consideration of the Township of Covert's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Siegfried Crandall P.C.

October 26, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Township of Covert
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is intended as a narrative overview of the Township of Covert's (the Township) operations over the fiscal year and its financial condition on June 30, 2004.

Financial highlights

- \$ The Township's total net assets increased \$288 thousand (4 percent) as a result of this year's operations. Net assets of the governmental activities decreased \$261 thousand, (10 percent), and net assets of the business-type activities increased \$549 thousand (11 percent).
- \$ Of the \$8.2 million total net assets reported, \$1.8 million is available to be used to meet future operating and capital improvement needs.
- \$ The General Fund unreserved undesignated fund balance at the end of the fiscal year was \$642 thousand, which represents 100 percent of the actual total General Fund expenditures for the fiscal year.

Overview of the financial statements

This discussion and analysis introduces the Township's basic financial statements that follow this section. These financial statements are in a new format implemented over this fiscal year to comply with Governmental Accounting Standards Board Statement 34 (GASB 34). The Township's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statement are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide financial statements.
 - The governmental funds statements tell how general government services like public works and public safety were financed in the short term as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business. The Township has two proprietary funds to account for its water and sewer operations.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Because this is the first year of this reporting format, a comparative analysis of the basic financial statements was not possible. Comparative analyses of the basic financial statements will be made in subsequent years.

Government-wide statements

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets and the Statement of Activities includes all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets - the difference between the Township's assets and liabilities - is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township you need to consider additional nonfinancial factors such as changes in the Township's property tax base and the condition of the Township's roads.

The government-wide financial statements are divided into two categories:

1. *Governmental activities.* These activities include functions most commonly associated with government (e.g., general government, public works, public safety, etc.). Property taxes and intergovernmental revenues generally fund these services.
2. *Business-type activities.* These activities provide services that are funded by customer user fees. The user fees are calculated to provide all or the majority of the operating costs involved in providing the services.

Fund financial statements

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Township Board establishes other funds to control and manage money for particular purposes, or to show that it is properly using certain taxes and other revenues.

The Township has three kinds of funds:

1. *Government funds:* Most of the Township's basic services are included in governmental funds, which focus on 1) how cash, and other financial assets that can be readily converted to cash, flow in and out and, 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance

Township of Covert
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Fund financial statements (Continued)

1. *Government funds (continued):* the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the relationship between them.
2. *Proprietary funds:* Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-and short-term financial information. In fact, the Township's enterprise funds (a type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
3. *Fiduciary funds:* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The Township's fiduciary activities are reported in separate Statements of Net Assets - Fiduciary Fund. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

Financial analysis of the government as a whole

Net Assets: Total net assets at the end of the fiscal year were \$8.2 million, an increase of 4 percent over the prior year. However, \$3.0 million of this total is invested in capital assets, and \$3.4 million is restricted for capital asset acquisitions, debt service, public safety, public works, and community and economic development. Consequently, unrestricted net assets were \$1.8 million, 22 percent of the total.

*Condensed financial information
net assets (in thousands)*

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Current and other assets	\$1,430.5	\$ 5,608.1	\$ 7,038.6
Capital assets	<u>1,122.3</u>	<u>15,543.0</u>	<u>16,665.3</u>
<i>Total assets</i>	<u>2,552.8</u>	<u>21,151.1</u>	<u>23,703.9</u>
Long-term debt outstanding	68.0	13,629.4	13,697.4
Other liabilities	<u>73.8</u>	<u>1,758.2</u>	<u>1,832.0</u>
<i>Total liabilities</i>	<u>141.8</u>	<u>15,387.6</u>	<u>15,529.4</u>
Net assets:			
Invested in capital assets	1,122.3	1,907.9	3,030.2
Restricted	689.8	2,679.8	3,369.6
Unrestricted	<u>598.9</u>	<u>1,175.8</u>	<u>1,774.7</u>
<i>Total net assets</i>	<u>\$2,411.0</u>	<u>\$ 5,763.5</u>	<u>\$ 8,174.5</u>

Township of Covert
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Changes in net assets: The Township's total revenues are \$2.8 million. Approximately 71 percent of the Township's revenues come from property taxes, and 8 percent is received as state revenue sharing. About 16 percent of total revenues come from charges for services.

Condensed financial information
Changes in net assets (in thousands)

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Program revenues:			
Charges for services	\$ 172.1	\$ 285.8	\$ 457.9
Capital grants	54.2	40.7	94.9
General revenues:			
Taxes	1,019.7	962.5	1,982.2
State grants	221.6	-	221.6
Investment income	36.9	12.2	49.1
Other	<u>28.2</u>	<u>-</u>	<u>28.2</u>
<i>Total revenues</i>	<u>1,532.7</u>	<u>1,301.2</u>	<u>2,833.9</u>
Expenses:			
Legislative	3.0	-	3.0
General government	278.7	-	278.7
Public safety	1,068.2	-	1,068.2
Public works	296.6	764.1	1,060.7
Community and economic development	28.0	-	28.0
Recreation and culture	18.9	-	18.9
Health and welfare	<u>88.0</u>	<u>-</u>	<u>88.0</u>
<i>Total expenses</i>	<u>1,781.4</u>	<u>764.1</u>	<u>2,545.5</u>
Excess (deficiency) before transfers	(248.7)	537.1	288.4
Transfers	<u>(12.0)</u>	<u>12.0</u>	<u>-</u>
Increase (decrease) in net assets	<u>\$ (260.7)</u>	<u>\$ 549.1</u>	<u>\$ 288.4</u>

Governmental activities

Governmental activities decreased the Township's net assets by \$261 thousand. Key factors for this decrease include the excess of the net cost of services over property taxes and intergovernmental revenues.

The cost of all governmental activities this year was \$1.8 million. After subtracting the direct charges to those who directly benefited from the programs (\$172 thousand), and capital grants (\$54 thousand), the "public benefit" portion covered by taxes, state revenue sharing, other general revenues, and available surplus was \$1.6 million.

Township of Covert
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)

Financial analysis of the government as a whole (*Continued*)

Business-type activities

Business-type activities increased the Township's net assets by \$549 thousand.

The cost of water and sewer services for 2004 totaled \$764 thousand, including interest expense of \$291 thousand. Fees for these services totaled \$286 thousand. The Township levies an annual tax for the purposes of paying principal and interest for outstanding water bonds payable. The tax totaled \$962 thousand in 2004.

Financial analysis of the Township's funds

At June 30, 2004, the Township's governmental funds reported a combined fund balance of \$1.3 million, approximately \$144 thousand less than last year.

Expenditures in the General Fund exceeded revenues by \$107 thousand. \$97 thousand of this represented transfers made to the Fire and Ambulance Fund and the Wastewater Fund. This use of available surplus was anticipated in the General Fund budget for 2004, and a \$642 thousand fund balance remains in the fund.

The Police Fund had a \$48 thousand decrease in its fund balances this year. A larger decrease was anticipated in this fund, but expenditures did not reach expected amounts. The Road Fund and Fire and Ambulance Fund balances increased by \$15 thousand and \$2 thousand, respectively. Again, expenditures did not reach expected amounts.

General fund budgetary highlights

The Township amended the General Fund budget, primarily to prevent budget overruns. No amendments were significant, individually or in total.

Although revenues, principally charges for services, state revenue sharing, and other revenues, were \$37 thousand less than budgeted amounts, General Fund expenditures were also \$558 thousand less than appropriated, which resulted in a \$107 thousand decrease in fund balance, instead of the expected decrease of \$665 thousand. Unexpended appropriations for contingencies totaled \$324 thousand. Unexpended appropriations for transfers to other funds represented \$121 thousand of the positive budget variance. Unexpended appropriations for planning commission and capital outlay activities were \$19 thousand and \$27 thousand, respectively. Other positive variances were related to various general government and public safety activities totaling \$104 thousand. There were no significant negative budget variances for individual General Fund activities.

Capital asset and debt administration

Capital assets:

At June 30, 2004, the Township had invested \$16.7 million in various capital assets, net of depreciation, including its land, buildings, equipment, and water and wastewater systems. This amount represents an increase of \$2.7 million, 19 percent over the prior year.

This year's major capital asset additions included \$3.1 million additions to the Township's water supply system, financed with proceeds available from the 2003 water bond issue.

Township of Covert
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)

Capital asset and debt administration (*Continued*)

Capital assets (continued):

Detailed information about the Township's capital assets is presented in Note 6 to the financial statements.

Long-term debt:

At year end, the Township had \$13.6 million in outstanding bonds payable included in its business-type activities, and comprised of five general obligation and revenue bond issues. Detailed information about the Township's long-term liabilities is presented in Note 7 to the financial statements.

No new debt was issued this year.

Economic condition and outlook

Approximately \$642 thousand is available for appropriation in the General Fund budget. Modest increases in property taxes from increased assessed values are expected to be somewhat offset by decreases in the amounts received for state revenue sharing and other revenues. Overall, revenues are expected to increase slightly for 2005.

The Township plans to purchase a new ambulance and a fire grass rig in 2005. The Township has not added other major new programs or initiatives to the 2005 budget. Various cost increases for planning, insurance, payroll, and fringe benefits are anticipated to increase. However, the General Fund is also expected to receive some repayment of its prior subsidies to the Fire and Ambulance and Police Funds. Overall, the General Fund balance is expected to be stable during fiscal year 2005.

Revenues in the other governmental funds are expected to increase as a result of additional tax millages. The Fire and Ambulance fund millage has increased at both the Township and County levels. The 2005 Township Fire and Ambulance millage will be 1.7 mills, up from 1.0 mill in 2004. Additionally, the County-wide ambulance millage has been increased to 0.6 mills, and will now be based on State Equalized Value, instead of population. The combined millage increases are expected to bring an additional \$303 thousand in revenues to the Fire and Ambulance Fund in fiscal year 2005. The Township police millage has also been increased for 2005, to 1.5 mills from 1.25 mills in 2004. This change will provide additional tax revenue of \$58 thousand. The result of these changes will be to eliminate the need for the Township's General Fund to subsidize these public safety services.

The Township's Water Fund is expected to operate so that revenues, including property taxes for debt service, will continue to exceed expenses for water services. However, the Wastewater Fund is expected to again require a subsidy from the General Fund to cover operating costs.

Contacting the Township's financial management

This financial report is designed to provide a general overview of the Township's finances to its citizens, customers, investors, and creditors, and to demonstrate the Township's accountability for the money it receives. Questions regarding any information provided in this report or request for additional financial information should be addressed to the Township of Covert, Supervisor's Office, P.O. Box 35, Covert, Michigan 49043 (Phone: (269) 764-8986.)

BASIC FINANCIAL STATEMENTS

Township of Covert
STATEMENT OF NET ASSETS
June 30, 2004

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 1,285,752	\$ 1,252,775	\$ 2,538,527
Prepaid costs	15,315	-	15,315
Receivables (net)	129,424	1,745,114	1,874,538
Bond debt reserves - USDA loan	-	44,662	44,662
<i>Total current assets</i>	<u>1,430,491</u>	<u>3,042,551</u>	<u>4,473,042</u>
Noncurrent assets:			
Capital assets (net of accumulated depreciation)	1,222,303	15,543,011	16,765,314
Receivables (net)	-	2,481,277	2,481,277
Deferred charges	-	84,317	84,317
<i>Total non-current assets</i>	<u>1,222,303</u>	<u>18,108,605</u>	<u>19,330,908</u>
<i>Total assets</i>	<u>2,652,794</u>	<u>21,151,156</u>	<u>23,803,950</u>
LIABILITIES			
Current liabilities:			
Accounts payable	46,080	1,696,770	1,742,850
Accrued liabilities	27,720	61,497	89,217
Current maturities of long-term debt	-	382,000	382,000
<i>Total current liabilities</i>	<u>73,800</u>	<u>2,140,267</u>	<u>2,214,067</u>
Noncurrent liabilities:			
Compensated absences	68,000	-	68,000
Long-term debt	-	13,247,376	13,247,376
<i>Total non-current liabilities</i>	<u>68,000</u>	<u>13,247,376</u>	<u>13,315,376</u>
<i>Total liabilities</i>	<u>141,800</u>	<u>15,387,643</u>	<u>15,529,443</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,222,303	1,907,864	3,130,167
Restricted for:			
Acquisition of capital assets	-	2,481,277	2,481,277
Debt service	-	198,546	198,546
Public safety	267,599	-	267,599
Public works	352,433	-	352,433
Community and economic development	69,723	-	69,723
Unrestricted, unallocated	598,936	1,175,826	1,774,762
<i>Total net assets</i>	<u>\$ 2,510,994</u>	<u>\$ 5,763,513</u>	<u>\$ 8,274,507</u>

See notes to financial statements

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Township of Covert
STATEMENT OF ACTIVITIES
Year ended June 30, 2004

Functions/Programs	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for services</u>	<u>Capital grants and contributions</u>
<i>Governmental activities:</i>			
Legislative	\$ 3,006	\$ -	\$ -
General government	278,669	5,005	-
Public safety	1,068,163	156,413	-
Public works	296,577	3,987	54,175
Community and economic development	28,044	6,755	-
Recreation and culture	18,971	-	-
Health and welfare	88,034	-	-
<i>Total governmental activities</i>	<u>1,781,464</u>	<u>172,160</u>	<u>54,175</u>
<i>Business-type activities:</i>			
Sewer	119,003	65,194	-
Water	645,082	220,586	40,690
<i>Total business-type activities</i>	<u>764,085</u>	<u>285,780</u>	<u>40,690</u>
<i>Total</i>	<u>\$ 2,545,549</u>	<u>\$ 457,940</u>	<u>\$ 94,865</u>

General revenues:
Taxes
State grants
Investment income
Other
Transfers

Change in net assets

Net assets - beginning of year

Net assets - end of year

***Net (expenses) revenues and
changes in net assets***

<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>
\$ (3,006)	\$ -	\$ (3,006)
(273,664)	-	(273,664)
(911,750)	-	(911,750)
(238,415)	-	(238,415)
(21,289)	-	(21,289)
(18,971)	-	(18,971)
(88,034)	-	(88,034)
(1,555,129)	-	(1,555,129)
-	(53,809)	(53,809)
-	(383,806)	(383,806)
-	(437,615)	(437,615)
(1,555,129)	(437,615)	(1,992,744)
1,019,741	962,494	1,982,235
221,650	-	221,650
36,898	12,177	49,075
28,242	-	28,242
(12,000)	12,000	-
1,294,531	986,671	2,281,202
(260,598)	549,056	288,458
2,771,592	5,214,457	7,986,049
<u>\$ 2,510,994</u>	<u>\$ 5,763,513</u>	<u>\$ 8,274,507</u>

See notes to financial statements

Township of Covert
BALANCE SHEET - Governmental funds
June 30, 2004

	<u>General</u>	<u>Roads</u>	<u>Police</u>
ASSETS			
Cash	\$ 570,167	\$ 352,433	\$ 140,876
Due from other governmental units	73,525	-	-
Accounts receivable	-	-	-
Loans receivable	-	-	-
Prepaid expenses	15,315	-	-
Due from other funds	18,119	-	2,720
	<u> </u>	<u> </u>	<u> </u>
<i>Total assets</i>	<u>\$ 677,126</u>	<u>\$ 352,433</u>	<u>\$ 143,596</u>
 LIABILITIES AND FUND BALANCE			
<i>Liabilities:</i>			
Accounts payable	\$ 31,343	\$ -	\$ 7,966
Accrued liabilities	3,452	-	9,636
	<u> </u>	<u> </u>	<u> </u>
<i>Total liabilities</i>	<u>34,795</u>	<u>-</u>	<u>17,602</u>
 <i>Fund balances:</i>			
Reserved for noncurrent receivables	-	-	-
Unreserved, unallocated	642,331	352,433	125,994
	<u> </u>	<u> </u>	<u> </u>
<i>Total fund balances</i>	<u>642,331</u>	<u>352,433</u>	<u>125,994</u>
 <i>Total liabilities and fund balances</i>	<u>\$ 677,126</u>	<u>\$ 352,433</u>	<u>\$ 143,596</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Long-term liabilities, including accrued compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.

Net assets of governmental funds

<i>Fire and ambulance</i>	<i>Other</i>	<i>Totals</i>
\$ 131,714	\$ 69,723	\$ 1,264,913
-	-	73,525
31,294	-	31,294
-	24,605	24,605
-	-	15,315
-	-	20,839
<u>\$ 163,008</u>	<u>\$ 94,328</u>	<u>\$ 1,430,491</u>

\$ 6,771	\$ -	\$ 46,080
<u>14,632</u>	<u>-</u>	<u>27,720</u>
<u>21,403</u>	<u>-</u>	<u>73,800</u>

-	24,605	24,605
<u>141,605</u>	<u>69,723</u>	<u>1,332,086</u>
<u>141,605</u>	<u>94,328</u>	1,356,691
<u>\$ 163,008</u>	<u>\$ 94,328</u>	

1,222,303

(68,000)

\$ 2,510,994

See notes to financial statements

Township of Covert

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - Governmental funds

Year ended June 30, 2004

	<u>General</u>	<u>Roads</u>	<u>Police</u>	<u>Fire and ambulance</u>	<u>Other</u>	<u>Totals</u>
REVENUES						
Taxes	\$ 329,990	\$ 109,481	\$ 273,730	\$ 218,995	\$ 87,545	\$ 1,019,741
Federal grants	4,705	-	-	-	-	4,705
State grants	219,567	-	2,083	-	-	221,650
Fines and forfeitures	-	-	3,127	-	-	3,127
Licenses and permits	20,518	-	-	-	-	20,518
Intergovernmental	-	-	-	28,707	-	28,707
Charges for services	11,042	-	-	104,061	-	115,103
Interest and rentals	31,296	4,140	760	702	-	36,898
Other	13,508	54,175	8,000	6,734	-	82,417
<i>Total revenues</i>	<u>630,626</u>	<u>167,796</u>	<u>287,700</u>	<u>359,199</u>	<u>87,545</u>	<u>1,532,866</u>
EXPENDITURES						
Legislative	3,006	-	-	-	-	3,006
General government	265,389	-	-	-	-	265,389
Public safety	205,293	-	299,245	431,186	-	935,724
Public works	143,442	152,632	-	-	-	296,074
Community and economic development	21,080	-	-	-	6,964	28,044
Recreation and culture	2,075	-	-	-	-	2,075
Health and welfare	-	-	-	-	87,545	87,545
Capital outlay	-	-	36,299	10,803	-	47,102
<i>Total expenditures</i>	<u>640,285</u>	<u>152,632</u>	<u>335,544</u>	<u>441,989</u>	<u>94,509</u>	<u>1,664,959</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(9,659)</u>	<u>15,164</u>	<u>(47,844)</u>	<u>(82,790)</u>	<u>(6,964)</u>	<u>(132,093)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	85,000	-	85,000
Transfers out	(97,000)	-	-	-	-	(97,000)
<i>Total other financing sources (uses)</i>	<u>(97,000)</u>	<u>-</u>	<u>-</u>	<u>85,000</u>	<u>-</u>	<u>(12,000)</u>
NET CHANGE IN FUND BALANCES	(106,659)	15,164	(47,844)	2,210	(6,964)	(144,093)
FUND BALANCES - BEGINNING OF YEAR	<u>748,990</u>	<u>337,269</u>	<u>173,838</u>	<u>139,395</u>	<u>101,292</u>	<u>1,500,784</u>
FUND BALANCES - END OF YEAR	<u>\$ 642,331</u>	<u>\$ 352,433</u>	<u>\$ 125,994</u>	<u>\$ 141,605</u>	<u>\$ 94,328</u>	<u>\$ 1,356,691</u>

Net change in fund balances - total governmental funds \$ (144,093)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which the depreciation provision exceeded capital outlay in the current period. (110,625)

Some expenses reported in the statement of activities do not require the use of current financial resources and, resources and, therefore, are not reported as expenditures in governmental funds. (5,880)

Change in net assets - governmental activities \$ (260,598)

See notes to financial statements

Township of Covert
STATEMENT OF NET ASSETS - *proprietary funds*
June 30, 2004

	<i>Business-type activities - enterprise funds</i>		
	<i>Major</i>	<i>Nonmajor</i>	
	<i>Water</i>	<i>Sewer</i>	<i>Totals</i>
ASSETS			
Current assets:			
Cash and investments	\$ 1,236,504	\$ 16,271	\$ 1,252,775
Receivables (net)	42,413	23,956	66,369
Due from other governmental units	1,677,164	1,581	1,678,745
Bond debt reserves - USDA loan	-	44,662	44,662
<i>Total current assets</i>	<u>2,956,081</u>	<u>86,470</u>	<u>3,042,551</u>
Noncurrent assets:			
Capital assets (net of accumulated depreciation)	14,178,860	1,364,151	15,543,011
Due from other governmental units	2,481,277	-	2,481,277
Deferred charges	84,317	-	84,317
<i>Total noncurrent assets</i>	<u>16,744,454</u>	<u>1,364,151</u>	<u>18,108,605</u>
<i>Total assets</i>	<u>19,700,535</u>	<u>1,450,621</u>	<u>21,151,156</u>
LIABILITIES			
Current liabilities:			
Accounts payable	1,691,873	4,897	1,696,770
Accrued interest	51,247	10,250	61,497
Current maturities of long-term debt	375,000	7,000	382,000
<i>Total current liabilities</i>	<u>2,118,120</u>	<u>22,147</u>	<u>2,140,267</u>
Noncurrent liabilities - long-term debt	12,844,376	403,000	13,247,376
<i>Total liabilities</i>	<u>14,962,496</u>	<u>425,147</u>	<u>15,387,643</u>
NET ASSETS			
Invested in capital assets, net of related debt	959,484	948,380	1,907,864
Restricted for acquisition of capital assets	2,481,277	-	2,481,277
Restricted for debt service	171,134	27,412	198,546
Unrestricted, unallocated	1,126,144	49,682	1,175,826
<i>Total net assets</i>	<u>\$ 4,738,039</u>	<u>\$ 1,025,474</u>	<u>\$ 5,763,513</u>

See notes to financial statements

Township of Covert**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND****NET ASSETS - *proprietary funds****Year ended June 30, 2004*

	<i>Business-type activities - enterprise funds</i>		
	<i>Major</i>	<i>Non-major</i>	
	<i>Water</i>	<i>Sewer</i>	<i>Totals</i>
OPERATING REVENUES			
Charges for services	\$ 104,086	\$ 65,194	\$ 169,280
Hook up fees and other charges	116,500	-	116,500
<i>Total operating revenues</i>	<u>220,586</u>	<u>65,194</u>	<u>285,780</u>
OPERATING EXPENSES			
Contractual services	106,320	31,357	137,677
Utilities	476	2,625	3,101
Depreciation	249,555	48,189	297,744
Repairs and maintenance	22,353	12,197	34,550
<i>Total operating expenses</i>	<u>378,704</u>	<u>94,368</u>	<u>473,072</u>
OPERATING LOSS	<u>(158,118)</u>	<u>(29,174)</u>	<u>(187,292)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest	11,948	229	12,177
Interest expense	(266,378)	(24,635)	(291,013)
Capital contributions	40,690	-	40,690
Property taxes	962,494	-	962,494
<i>Total nonoperating revenues (expenses)</i>	<u>748,754</u>	<u>(24,406)</u>	<u>724,348</u>
TRANSFER FROM GENERAL FUND	<u>-</u>	<u>12,000</u>	<u>12,000</u>
CHANGE IN NET ASSETS	590,636	(41,580)	549,056
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>4,147,403</u>	<u>1,067,054</u>	<u>5,214,457</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 4,738,039</u>	<u>\$ 1,025,474</u>	<u>\$ 5,763,513</u>

See notes to financial statements

Township of Covert
STATEMENT OF CASH FLOWS - proprietary funds
Year ended June 30, 2004

	<u>Business-type activities - enterprise funds</u>		
	<u>Major</u>	<u>Non-major</u>	
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 193,409	\$ 64,083	\$ 257,492
Payments to suppliers	<u>(139,126)</u>	<u>(42,832)</u>	<u>(181,958)</u>
<i>Net cash provided by operating activities</i>	<u>54,283</u>	<u>21,251</u>	<u>75,534</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Transfers from other funds	<u>-</u>	<u>12,000</u>	<u>12,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Property taxes collected	962,494	-	962,494
Capital grants received	87,194	-	87,194
Acquisition of capital assets	(164,332)	-	(164,332)
Principal paid on long-term debt	(325,000)	(7,000)	(332,000)
Interest paid on long-term debt	<u>(362,721)</u>	<u>(24,809)</u>	<u>(387,530)</u>
<i>Net cash provided by (used in) capital and related financing activities</i>	<u>197,635</u>	<u>(31,809)</u>	<u>165,826</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	<u>11,950</u>	<u>228</u>	<u>12,178</u>
NET INCREASE IN CASH	263,868	1,670	265,538
CASH - BEGINNING OF THE YEAR	<u>972,636</u>	<u>59,263</u>	<u>1,031,899</u>
CASH - END OF YEAR	<u>\$ 1,236,504</u>	<u>\$ 60,933</u>	<u>\$ 1,297,437</u>

See notes to financial statements

Township of Covert

STATEMENT OF CASH FLOWS - *proprietary funds (Continued)*

Year ended June 30, 2004

	<u>Business-type activities - enterprise funds</u>		
	<u>Major</u>	<u>Non-major</u>	<u>Totals</u>
	<u>Water</u>	<u>Sewer</u>	
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (158,118)	\$ (29,174)	\$ (187,292)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization	253,993	48,189	302,182
Increase in accounts receivable	(27,177)	(1,111)	(28,288)
Increase (decrease) in accounts payable	<u>(14,415)</u>	<u>3,347</u>	<u>(11,068)</u>
Net cash provided by operating activities	<u>\$ 54,283</u>	<u>\$ 21,251</u>	<u>\$ 75,534</u>
SUPPLEMENTARY CASH FLOW INFORMATION			
Acquisition of capital assets (including \$272,537 capitalized interest)	\$ (3,073,416)	\$ -	\$ (3,073,416)
Decrease in due from other governmental units	2,372,951	-	2,372,951
Increase in accounts payable	<u>536,133</u>	<u>-</u>	<u>536,133</u>
Cash used to acquire capital assets	<u>\$ (164,332)</u>	<u>\$ -</u>	<u>\$ (164,332)</u>
Increase in deferred charges	\$ (88,755)	\$ -	\$ (88,755)
Decrease in due from other governmental units	<u>88,755</u>	<u>-</u>	<u>88,755</u>
Cash used in payment of deferred charges	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements

Township of Covert
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Township of Covert, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted account principles) as applicable to governments. The following is a summary of the more significant policies:

a) Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Township (primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the Township exercises oversight responsibility.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. The effect of all interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):
Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the Township.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Road Fund accounts for construction and maintenance of roads.

The Police Fund and Fire and Ambulance Fund account for public safety activities.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the GASB. The Township also has the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The Township has elected not to follow subsequent private-sector standards.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) *Assets, liabilities, and net assets or equity:*

i) *Bank deposits and investments* - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is proportionately allocated to all funds.

ii) *Receivables and payables* - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are considered to be fully collectible.

iii) *Prepaid items* - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

iv) *Capital assets* - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 50 years
Equipment	3 - 20 years
Sewer and water systems	50 years

v) *Compensated absences (vacation and sick leave)* - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the Township. Vested compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) *Assets, liabilities, and net assets or equity (continued):*

vi) *Fund equity* - In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

NOTE 3 - CASH AND INVESTMENTS:

The Township's deposits, as presented in the government-wide statement of net assets, are as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
Cash	\$1,285,752	\$1,252,775	\$2,538,527
Restricted assets	<u>-</u>	<u>44,662</u>	<u>44,662</u>
<i>Total cash</i>	<u>\$1,285,752</u>	<u>\$1,297,437</u>	<u>\$2,583,189</u>

Deposits are carried at cost and are maintained at various financial institutions in the name of the Township Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority. At June 30, 2004, the Township has deposits with a carrying amount of \$2,583,189 and a bank balance of \$2,593,373. Of the bank balance, \$300 thousand is covered by federal depository insurance and \$2,293,373 is uninsured. Bond debt reserves in the amount of \$44,662 are held in a separate account, as required by the U.S. Department of Agriculture.

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

Receivables as of year end for the government's individual major and nonmajor funds, in the aggregate, are as follows:

	<u>General</u>	<u>Roads</u>	<u>Police</u>	<u>Fire and Ambulance</u>	<u>Non Major</u>	<u>Totals</u>
Accounts	\$ -	\$ -	\$ -	\$31,294	\$24,605	\$ 55,899
Intergovernmental	<u>91,644</u>	<u>-</u>	<u>2,720</u>	<u>-</u>	<u>-</u>	<u>94,364</u>
Net receivables	<u>\$91,644</u>	<u>\$ -</u>	<u>\$2,720</u>	<u>\$31,294</u>	<u>\$24,605</u>	<u>\$150,263</u>
Non-current portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$24,605</u>	<u>\$ 24,605</u>

NOTE 5 - ECONOMIC DEPENDENCY:

The Township received approximately 52 percent of its property tax revenues from one major taxpayer.

NOTE 6 - CAPITAL ASSETS:

Capital assets activity of the Township for the current year was as follows:

	<u>Beginning balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending balance</u>
<i>Governmental activities:</i>				
Capital assets not being depreciated - land	\$ <u>122,214</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>122,214</u>
Capital assets being depreciated:				
Buildings	1,390,877	-	-	1,390,877
Furniture, fixtures, and equipment	308,879	8,707	7,547	310,039
Vehicles	<u>830,560</u>	<u>28,886</u>	<u>-</u>	<u>859,446</u>
<i>Subtotal</i>	<u>2,530,316</u>	<u>37,593</u>	<u>7,547</u>	<u>2,560,362</u>
Less accumulated depreciation for:				
Buildings	(530,324)	(35,773)	-	(566,097)
Furniture, fixtures and equipment	(228,357)	26,897	7,547	(247,707)
Vehicles	<u>(560,921)</u>	<u>(85,548)</u>	<u>-</u>	<u>(646,469)</u>
<i>Subtotal</i>	<u>(1,319,602)</u>	<u>(148,218)</u>	<u>7,547</u>	<u>(1,460,273)</u>

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - CAPITAL ASSETS (Continued):

	<u>Beginning balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending balance</u>
<i>Governmental activities:</i>				
Net capital assets being depreciated	\$ <u>1,210,714</u>	\$ <u>(110,625)</u>	\$ <u>-</u>	\$ <u>1,100,089</u>
<i>Total capital assets - net of depreciation</i>	\$ <u>1,332,928</u>	\$ <u>(110,625)</u>	\$ <u>-</u>	\$ <u>1,222,303</u>
<i>Business-type activities:</i>				
Capital assets not being depreciated:				
Land	\$ 94,583	\$ -	\$ -	\$ 94,583
Construction in progress	<u>-</u>	<u>1,743,910</u>	<u>-</u>	<u>1,743,910</u>
<i>Subtotal</i>	<u>94,583</u>	<u>1,743,910</u>	<u>-</u>	<u>1,838,493</u>
Capital assets being depreciated:				
Sewer system	1,911,590	-	5,321	1,906,269
Water system	<u>11,812,998</u>	<u>1,329,506</u>	<u>-</u>	<u>13,142,504</u>
<i>Subtotal</i>	<u>13,724,588</u>	<u>1,329,506</u>	<u>5,321</u>	<u>15,048,773</u>
Less accumulated depreciation for:				
Sewer system	(593,833)	(48,189)	5,321	(636,701)
Water system	<u>(457,999)</u>	<u>(249,555)</u>	<u>-</u>	<u>(707,554)</u>
<i>Subtotal</i>	<u>(1,051,832)</u>	<u>(297,744)</u>	<u>-</u>	<u>(1,344,255)</u>
Net capital assets being depreciated	<u>12,672,756</u>	<u>1,031,762</u>	<u>-</u>	<u>13,704,518</u>
<i>Total capital assets - net of depreciation</i>	\$ <u>12,767,339</u>	\$ <u>2,775,672</u>	\$ <u>-</u>	\$ <u>15,543,011</u>

Depreciation expense was charged to programs of the Township as follows:

<i>Governmental activities:</i>	
General government	\$ 13,280
Public safety	117,049
Public works	503
Recreation and culture	16,897
Health and welfare	<u>489</u>
<i>Total</i>	\$ <u>148,218</u>

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - CAPITAL ASSETS (Continued):

Business-type activities:

Sewer	\$ 48,189
Water	<u>249,555</u>
<i>Total</i>	<u><u>\$297,744</u></u>

NOTE 7 - LONG-TERM DEBT:

Long-term debt recorded in the Township's enterprise funds at June 30, 2003, is comprised of the following individual issues:

Sanitary sewer revenue bonds, series 1989A, bearing interest at 6%, maturing each year 1991 through 2029	\$ 280,500
Sanitary sewer revenue bonds, series 1989B, bearing interest at 6%, maturing each year 1991 through 2029	129,500
\$2,500,000 County of Van Buren Water Supply System limited tax general obligation bonds series 1997, bearing interest at 4.0% to 4.4%, maturing each year through 2007, net of unamortized discount of \$13,517	861,483
\$5,000,000 County of Van Buren Water Supply System limited tax general obligation bond series 2002, bearing interest at 3.50 to 4.75%, maturing each year through 2021, net of unamortized discount of \$42,107	4,857,893
\$7,500,000 County of Van Buren Water Supply System limited tax general obligation bond series 2003, bearing interest at 3.000 to 4.375%, maturing each year through 2024	<u>7,500,000</u>
	<u><u>\$13,629,376</u></u>

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - LONG-TERM DEBT (Continued):

Long-term liability activity for the year ended June 30, 2004, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
<i>Business-type activities:</i>					
1989A revenue bonds	\$ 284,000	\$ -	\$ 3,500	\$ 280,500	3,500
1989B revenue bonds	133,000	-	3,500	129,500	3,500
1997 general obligation	1,150,000	-	275,000	875,000	275,000
2002 general obligation	4,950,000	-	50,000	4,900,000	50,000
2003 general obligation	<u>7,500,000</u>	<u>-</u>	<u>-</u>	<u>7,500,000</u>	<u>50,000</u>
<i>Total long-term debt</i>	\$14,017,000	\$ -	\$(332,000)	\$13,685,000	\$382,000
Less bond discounts	-	-	-	(55,624)	-
<i>Governmental activities:</i>					
Compensated absences	<u>62,120</u>	<u>44,157</u>	<u>(38,277)</u>	<u>68,000</u>	<u>-</u>
<i>Total long-term obligations</i>	<u>\$14,016,513</u>	<u>\$ -</u>	<u>\$(363,294)</u>	<u>\$13,697,376</u>	<u>\$382,000</u>

Debt service requirements at June 30, 2004 were as follows:

	<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>
<i>Year ended June 30:</i>		
2005	\$ 382,000	\$ 579,091
2006	432,500	563,703
2007	483,000	546,049
2008	659,000	526,559
2009	659,500	500,801
2010	660,500	474,983
2011 - 2015	3,388,000	1,969,727
2016 - 2020	3,757,000	1,236,671
2021 - 2025	3,149,500	375,870
2026 - 2030	<u>114,000</u>	<u>13,980</u>
Totals	<u>\$13,685,000</u>	<u>\$6,787,434</u>

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES:

The composition of interfund balances is as follows:

<u>Fund</u>	<u>Interfund receivables</u>	<u>Fund</u>	<u>Interfund payables</u>
General	\$18,119	Current tax collection	\$ 1,163
		Trust and agency	<u>16,956</u>
			<u>18,119</u>
Police	<u>2,720</u>	Trust and agency	<u>2,720</u>
	<u>\$20,839</u>		<u>\$20,839</u>

The interfund receivable and payable balances resulted from the time lag between the dates that interfund goods and services are provided and payments between funds are made.

A summary of interfund transfers for the year ended June 30, 2004, is as follows:

<u>Fund</u>	<u>Transfer in</u>	<u>Fund</u>	<u>Transfer out</u>
Fire and Ambulance	\$85,000	General	<u>\$97,000</u>
Wastewater	<u>12,000</u>		
	<u>\$ 97,000</u>		

In 2004, transfers were used to move available unrestricted funds from the General Fund to the Fire and Ambulance Fund and the Sewer Fund for operating purposes.

NOTE 9 - DEFINED CONTRIBUTION AND MONEY PURCHASE PLAN:

The Township maintains a defined contribution plan. The plan is a non-trustee plan and the Township does not administer the plan assets. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Michigan State Statute assigns the authority to establish and amend benefit provisions to the Township Board of Trustees. All members of the Township Board and all Township employees employed full-time on a regular basis are eligible to participate. Eligible employees may begin participating after six months of employment. The Township contributes 5 percent of participating employees' annual compensation.

All of the Township's contributions for each participating employee (and interest allocated to the employee's account) are fully vested when the employee participates in the plan.

The Township made required contributions of \$31,815 for the year ended June 30, 2004.

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 - CLAIMS ARISING FROM RISK OF LOSS:

The Township is exposed to various risks of losses for claims arising from general liability, wrongful acts, professional liability, property damage and destruction, crime, accidents, and injuries. Risks of losses arising from possible claims are managed through the purchase of commercial insurance.

For all risks of loss, there has been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 11 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2004, is as follows:

Revenues	\$20,113
Expenses	<u>22,198</u>
Deficiency of revenues over expenses	\$ <u>(2,085)</u>

NOTE 12 - COMMITMENTS:

The Township has entered construction contracts for the purpose of constructing water distribution systems. Outstanding contractual and other commitments related to the construction total approximately \$750 thousand at June 30, 2004.

NOTE 13 - CHANGE IN ACCOUNTING PRINCIPLES:

Effective July 1, 2003, the Township implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, along with all related statements and interpretations. In connection with the implementation of this statement, the following adjustments to beginning net assets have been made to reflect the cumulative effect of this accounting change in the governmental funds:

Net assets, as previously reported (general and special revenue)	\$1,500,784
Capitalization of capital assets, net of accumulated depreciation, not previously reported	1,332,928
Long-term liabilities, including accrued sick and vacation time were previously reported in the general long-term debt account group	<u>(62,120)</u>
Net assets, as restated	<u>\$2,771,592</u>

REQUIRED SUPPLEMENTARY INFORMATION

Township of Covert
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended June 30, 2004

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes:				
Current property taxes	\$ 217,500	\$ 217,500	\$ 215,159	\$ (2,341)
Collection fees	<u>112,000</u>	<u>112,000</u>	<u>114,831</u>	<u>2,831</u>
<i>Total taxes</i>	<u>329,500</u>	<u>329,500</u>	<u>329,990</u>	<u>490</u>
Federal grants	<u>-</u>	<u>-</u>	<u>4,705</u>	<u>4,705</u>
State grants	<u>234,000</u>	<u>234,000</u>	<u>219,567</u>	<u>(14,433)</u>
Licenses and permits:				
Business licenses	-	-	368	368
Building and zoning permits	-	-	20,113	20,113
Dog licenses	<u>-</u>	<u>-</u>	<u>37</u>	<u>37</u>
<i>Total licenses and permits</i>	<u>-</u>	<u>-</u>	<u>20,518</u>	<u>20,518</u>
Charges for services:				
Cemetery charges	15,000	15,000	4,745	(10,255)
Transfer station fees	15,000	15,000	3,987	(11,013)
Land division fees	<u>10,000</u>	<u>10,000</u>	<u>2,310</u>	<u>(7,690)</u>
<i>Total charges for services</i>	<u>40,000</u>	<u>40,000</u>	<u>11,042</u>	<u>(28,958)</u>
Interest and rentals	<u>32,000</u>	<u>32,000</u>	<u>31,296</u>	<u>(704)</u>
Other:				
Contributions	-	-	1,044	1,044
Miscellaneous	<u>32,000</u>	<u>32,000</u>	<u>12,464</u>	<u>(19,536)</u>
<i>Total other</i>	<u>32,000</u>	<u>32,000</u>	<u>13,508</u>	<u>(18,492)</u>
<i>Total revenues</i>	<u>667,500</u>	<u>667,500</u>	<u>630,626</u>	<u>(36,874)</u>

Township of Covert
BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)
Year ended June 30, 2004

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES				
Legislative - Township Board	\$ 3,250	\$ 3,250	\$ 3,006	\$ 244
General government:				
Board of review	5,000	5,000	2,481	2,519
Supervisor	25,000	25,000	20,070	4,930
Clerk	30,000	30,000	24,736	5,264
Treasurer	44,000	44,000	38,403	5,597
Elections	12,000	7,500	3,775	3,725
Assessing	45,000	55,000	50,038	4,962
Cemetery	10,000	10,000	9,631	369
Insurance and bonds	63,000	70,000	66,763	3,237
Pension	4,000	4,000	4,814	(814)
Buildings and grounds	30,000	21,800	15,154	6,646
Professional services	29,000	29,000	15,863	13,137
Other	<u>35,075</u>	<u>17,750</u>	<u>13,661</u>	<u>4,089</u>
<i>Total general government</i>	<u>332,075</u>	<u>319,050</u>	<u>265,389</u>	<u>53,661</u>
Public safety:				
Police	101,750	109,750	92,462	17,288
Fire and ambulance	81,250	81,250	65,847	15,403
Electrical inspector	8,000	12,000	9,721	2,279
Building inspection	15,000	15,000	9,457	5,543
Mechanical inspection	7,000	7,000	3,020	3,980
Ordinance enforcement	<u>20,000</u>	<u>30,000</u>	<u>24,786</u>	<u>5,214</u>
<i>Total public safety</i>	<u>233,000</u>	<u>255,000</u>	<u>205,293</u>	<u>49,707</u>
Public works:				
Transfer station	35,000	31,000	32,810	(1,810)
Streets and sidewalks	50,000	43,150	43,535	(385)
Drains	10,000	10,000	8,450	1,550
Housing Commission	1,500	2,000	1,717	283
Airport Authority	<u>60,000</u>	<u>60,000</u>	<u>56,930</u>	<u>3,070</u>
<i>Total public works</i>	<u>156,500</u>	<u>146,150</u>	<u>143,442</u>	<u>2,708</u>

Township of Covert

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended June 30, 2004

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Community and economic development - planning commission	<u>40,000</u>	<u>40,000</u>	<u>21,080</u>	<u>18,920</u>
Recreation and culture:				
Library	\$ 6,000	\$ 2,375	\$ 1,984	\$ 391
Parks	<u>10,000</u>	<u>10,000</u>	<u>91</u>	<u>9,909</u>
<i>Total recreation and culture</i>	<u>16,000</u>	<u>12,375</u>	<u>2,075</u>	<u>10,300</u>
Capital outlay	<u>27,175</u>	<u>27,175</u>	<u>-</u>	<u>27,175</u>
Contingency	<u>324,000</u>	<u>324,000</u>	<u>-</u>	<u>324,000</u>
<i>Total expenditures</i>	<u>1,132,000</u>	<u>1,127,000</u>	<u>640,285</u>	<u>486,715</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(464,500)</u>	<u>(459,500)</u>	<u>(9,659)</u>	<u>449,841</u>
OTHER FINANCING USES				
Transfer to Fire and Ambulance Fund	(205,500)	(205,500)	(85,000)	120,500
Transfer to Wastewater Fund	<u>-</u>	<u>-</u>	<u>(12,000)</u>	<u>(12,000)</u>
<i>Total other financing uses</i>	<u>(205,500)</u>	<u>(205,500)</u>	<u>(97,000)</u>	<u>108,500</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES AND OTHER USES	<u>(670,000)</u>	<u>(665,000)</u>	<u>(106,659)</u>	<u>558,341</u>
FUND BALANCE - BEGINNING OF YEAR	<u>748,990</u>	<u>748,990</u>	<u>748,990</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 78,990</u>	<u>\$ 83,990</u>	<u>\$ 642,331</u>	<u>\$ 558,341</u>

Township of Covert
BUDGETARY COMPARISON SCHEDULE - Road Fund
Year ended June 30, 2004

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 110,630	\$ 110,630	\$ 109,481	\$ (1,149)
Interest	4,500	4,500	4,140	(360)
Other	<u>-</u>	<u>-</u>	<u>54,175</u>	<u>54,175</u>
<i>Total revenues</i>	115,130	115,130	167,796	52,666
EXPENDITURES				
Public works - road construction and maintenance	<u>452,130</u>	<u>452,130</u>	<u>152,632</u>	<u>299,498</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(337,000)	(337,000)	15,164	352,164
FUND BALANCE - BEGINNING OF YEAR	<u>337,269</u>	<u>337,269</u>	<u>337,269</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 269</u>	<u>\$ 269</u>	<u>\$ 352,433</u>	<u>\$ 352,164</u>

Township of Covert
BUDGETARY COMPARISON SCHEDULE - Police Fund
Year ended June 30, 2004

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes - property taxes	\$ 276,500	\$ 276,500	\$ 273,730	\$ (2,770)
State grants:				
Training grant	-	-	1,327	1,327
Liquor license fees	-	-	756	756
<i>Total state grants</i>	-	-	2,083	2,083
Fines and forfeitures - ordinance fines	-	-	3,127	3,127
Interest	1,600	1,600	760	(840)
Other	12,000	12,000	8,000	(4,000)
<i>Total revenues</i>	290,100	290,100	287,700	(2,400)
EXPENDITURES				
Public safety - police operations	408,000	408,000	299,245	108,755
Capital outlay	50,100	50,100	36,299	13,801
<i>Total expenditures</i>	458,100	458,100	335,544	122,556
DEFICIENCY OF REVENUES OVER EXPENDITURES	(168,000)	(168,000)	(47,844)	120,156
FUND BALANCE - BEGINNING OF YEAR	173,838	173,838	173,838	-
FUND BALANCE - END OF YEAR	\$ 5,838	\$ 5,838	\$ 125,994	\$ 120,156

Township of Covert
BUDGETARY COMPARISON SCHEDULE - Fire and Ambulance Fund
Year ended June 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes - property taxes	\$ 221,000	\$ 221,000	\$ 218,995	\$ (2,005)
Local unit contributions	27,000	27,000	28,707	1,707
Charges for services	65,000	65,000	104,061	39,061
Interest	1,200	1,200	702	(498)
Other	<u>10,000</u>	<u>10,000</u>	<u>6,734</u>	<u>(3,266)</u>
<i>Total revenues</i>	<u>324,200</u>	<u>324,200</u>	<u>359,199</u>	<u>34,999</u>
EXPENDITURES:				
Public safety	477,200	477,200	431,186	46,014
Capital outlay	<u>42,000</u>	<u>42,000</u>	<u>10,803</u>	<u>31,197</u>
<i>Total expenditures</i>	<u>519,200</u>	<u>519,200</u>	<u>441,989</u>	<u>77,211</u>
DEFICIENCY OF REVENUE OVER EXPENDITURES	(195,000)	(195,000)	(82,790)	112,210
OTHER FINANCING SOURCES				
Transfer from General Fund	<u>85,000</u>	<u>85,000</u>	<u>85,000</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	(110,000)	(110,000)	2,210	112,210
FUND BALANCE - BEGINNING OF YEAR	<u>139,395</u>	<u>139,395</u>	<u>139,395</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 29,395</u>	<u>\$ 29,395</u>	<u>\$ 141,605</u>	<u>\$ 112,210</u>

SUPPLEMENTARY INFORMATION

Township of Covert
COMBINING BALANCE SHEET - nonmajor governmental funds
June 30, 2004

	<u>Special revenue</u>		<u>Total nonmajor governmental funds</u>
	<u>Hospital</u>	<u>Loan</u>	
ASSETS			
Cash	\$ -	\$ 69,723	\$ 69,723
Loans receivable	-	24,605	24,605
<i>Total assets</i>	<u>\$ -</u>	<u>\$ 94,328</u>	<u>\$ 94,328</u>
 FUND BALANCES			
Reserved - long-term receivables	\$ -	\$ 24,605	\$ 24,605
Unreserved, undesignated	-	69,723	69,723
<i>Total fund balances</i>	<u>\$ -</u>	<u>\$ 94,328</u>	<u>\$ 94,328</u>

Township of Covert**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - nonmajor governmental funds***Year ended June 30, 2004*

	<u>Special revenue</u>		<u>Total</u>
	<u>Hospital</u>	<u>Loan</u>	<u>nonmajor</u>
			<u>governmental</u>
			<u>funds</u>
REVENUES			
Property taxes	\$ 87,545	\$ -	\$ 87,545
EXPENDITURES			
Community and economic development	-	6,964	6,964
Health and welfare	87,545	-	87,545
<i>Total expenditures</i>	<u>87,545</u>	<u>6,964</u>	<u>94,509</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>(6,964)</u>	<u>(6,964)</u>
FUND BALANCES - BEGINNING OF YEAR	<u>-</u>	<u>101,292</u>	<u>101,292</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ 94,328</u>	<u>\$ 94,328</u>

SUPPLEMENTARY DATA

Township of Covert
SCHEDULE OF INDEBTEDNESS
June 30, 2004

	<u>Maturity year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total requirements</u>
Contract payable - County of Van Buren, Michigan - Water Supply System Series 1997 - 4.00 to 4.40%	2005	\$ 37,938	\$ 275,000	\$ 312,938
	2006	26,250	300,000	326,250
	2007	<u>13,200</u>	<u>300,000</u>	<u>313,200</u>
		<u>\$ 77,388</u>	<u>\$ 875,000</u>	<u>\$ 952,388</u>

	<u>Maturity year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total requirements</u>
Bonds payable - County of Van Buren, Michigan - Water Supply System Series 2002 - 3.500 to 4.750%	2005	\$ 207,612	\$ 50,000	\$ 257,612
	2006	205,862	75,000	280,862
	2007	203,238	100,000	303,238
	2008	199,738	325,000	524,738
	2009	187,550	325,000	512,550
	2010	175,362	325,000	500,362
	2011	162,362	325,000	487,362
	2012	149,362	325,000	474,362
	2013	136,362	325,000	461,362
	2014	123,038	325,000	448,038
	2015	109,388	325,000	434,388
	2016	95,412	325,000	420,412
	2017	81,113	350,000	431,113
	2018	65,363	350,000	415,363
	2019	49,438	350,000	399,438
	2020	33,250	350,000	383,250
	2021	<u>16,626</u>	<u>350,000</u>	<u>366,626</u>
		<u>\$ 2,201,076</u>	<u>\$ 4,900,000</u>	<u>\$ 7,101,076</u>

	<u>Maturity year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total requirements</u>
Bonds payable - County of Van Buren, Michigan - Water Supply System Series 2003 - 3.000 to 4.375%	2005	\$ 309,361	\$ 50,000	\$ 359,361
	2006	307,861	50,000	357,861
	2007	306,361	75,000	381,361
	2008	304,111	325,000	629,111
	2009	291,111	325,000	616,111
	2010	278,111	325,000	603,111
	2011	265,111	325,000	590,111
	2012	252,111	325,000	577,111
	2013	239,111	350,000	589,111
	2014	225,111	350,000	575,111
	2015	211,111	350,000	561,111

Township of Covert
SCHEDULE OF INDEBTEDNESS (Continued)

June 30, 2004

	<u>Maturity year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total requirements</u>
Bonds payable - County of Van Buren, Michigan - Water Supply System Series 2003 - 3.00 to 4.375% (Continued)	2016	\$ 197,111	\$ 350,000	\$ 547,111
	2017	183,111	350,000	533,111
	2018	169,111	400,000	569,111
	2019	152,711	400,000	552,711
	2020	135,711	450,000	585,711
	2021	116,811	450,000	566,811
	2022	97,686	750,000	847,686
	2023	65,436	750,000	815,436
	2024	32,811	750,000	782,811
		<u>\$ 4,139,970</u>	<u>\$ 7,500,000</u>	<u>\$ 11,639,970</u>

	<u>Maturity year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total requirements</u>
Bonds payable - U.S. Department of Agriculture - Sanitary Sewer System Series 1989A and 1989B - 6.00%	2005	\$ 24,180	\$ 7,000	\$ 31,180
	2006	23,730	7,500	31,230
	2007	23,250	8,000	31,250
	2008	22,710	9,000	31,710
	2009	22,140	9,500	31,640
	2010	21,510	10,500	32,010
	2011	20,850	11,000	31,850
	2012	20,130	12,000	32,130
	2013	19,380	12,500	31,880
	2014	18,570	13,500	32,070
	2015	17,730	14,000	31,730
	2016	16,830	15,000	31,830
	2017	15,900	15,500	31,400
	2018	14,910	16,500	31,410
	2019	13,890	17,000	30,890
	2020	12,810	18,000	30,810
	2021	11,700	18,500	30,200
	2022	10,530	19,500	30,030
	2023	9,330	20,000	29,330
	2024	8,100	20,500	28,600
	2025	6,840	21,000	27,840
	2026	5,520	22,000	27,520
	2027	4,200	22,000	26,200
	2028	2,820	23,000	25,820
	2029	1,440	23,000	24,440
	2030	-	24,000	24,000
		<u>\$ 369,000</u>	<u>\$ 410,000</u>	<u>\$ 779,000</u>

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Township of Covert, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Covert, Michigan (the Township), as of and for the year ended June 30, 2004, which collectively comprise the Township's basic financial statements and have issued our report thereon dated October 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements, and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, the Township Board, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



October 26, 2004